



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Ramotshere Moiloa Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ramotshere Moiloa Local Municipality set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.



Basis for qualified opinion

Inventories

6. I was unable to obtain sufficient appropriate audit evidence for land included in inventories or for the adjustment to the corresponding figure of land as per note 40.1 to the financial statements, due to the state of the municipality's accounting records. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any adjustment relating to land of R24 753 804 (2015: R24 805 921) included in inventories as disclosed in note 2 to the financial statements and accumulated surplus as per the statement of financial position was necessary.

Consumer debtors

7. I was unable to obtain sufficient appropriate audit evidence for consumer debtors of R123 656 456, the allowance for impairment of R84 888 394 or other disclosures as per note 6 to the financial statements, due to the status of the accounting records. I was unable to confirm these consumer debtors and allowance for impairment by alternative means. Consequently, I was unable to determine whether any further adjustments relating to consumer debtors of R38 768 062, the debt impairment expense of R4 555 567 or the VAT payable of R5 591 483 included in the financial statements were necessary.

Intangible assets

8. The municipality incorrectly recognised software and license fees acquired that does not meet the recognition criteria of an intangible asset in accordance with GRAP 31 *Intangible assets*. Consequently, intangible assets is overstated by R3 490 887 (2015: R3 326 141), the accumulated surplus is overstated by R3 326 141 (2015: R2 888 109) and prepayments and operating expenditure is understated by R70 020 and R94 726 (2015: R438 032) respectively.

Revenue from non-exchange transactions

9. The municipality did not recognise revenue from fines and property rates at the correct amounts in accordance with GRAP 23 *Revenue from non-exchange transactions*. In addition, not all property rates revenue was recognised during 2015, resulting in property rates and consumer debtors being understated by R12 015 413. Consequently, fines, penalties and forfeits revenue and receivables from non-exchange transactions were overstated by R2 469 344 and property rates revenue were overstated by R4 357 634 and consumer debtors were understated by R7 657 779. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus in the financial statements.

Unauthorised expenditure

10. Section 125 of the MFMA requires the disclosure of unauthorised expenditure incurred. The municipality incorrectly disclosed payments that were made within the budget allocation as unauthorised expenditure. Consequently, unauthorised expenditure of R149 973 494 as per note 44 to the financial statements is overstated by R18 487 754.

Irregular expenditure

11. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R1 649 715 were made in terms of the supply chain management requirements. In addition, the municipality made payments of R11 553 541 in contravention with the supply chain



management requirements which were not included in irregular expenditure disclosed. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R98 173 608 as disclosed in note 46 to the financial statements was necessary.

Cash flow statement

12. I was unable to obtain sufficient appropriate audit evidence that non-cash items were appropriately accounted for in municipality's calculation of net cash flows from operating activities and cash generated from operations as required by of GRAP 2 Cash flow statements. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustment relating to net cash flows from operating activities and cash generated from operations in the cash flow statement and notes thereto was necessary.

Statement of comparison of budget and actual amounts

13. The municipality did not appropriately present budgeted and actual amounts as required by GRAP 24 *Presentation of budget information in the financial statements*. The amounts disclosed as the final budget amounts does not agree to the adjustment budget of the municipality. Additionally, there was a resultant impact on the variances disclosed.

Commitments

14. The municipality did not disclose all contractual commitments for the acquisition of property, plant and equipment as required by GRAP 17 *Property, plant and equipment*. Capital commitments of R15 073 677 were identified which were not included in capital commitments. Consequently, commitments of R18 483 731 as disclosed in note 37 to the financial statements is understated by R15 073 677.

Risk management

15. The municipality did not disclose a summary of quantitative data about its exposure to that risk at the end of the reporting period for each or each type of risk arising from financial instruments and other related disclosure requirements as required by GRAP 104 *Financial instruments*. Consequently, the municipality did not disclose all the required information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed in note 42 to the financial statements. I was unable to practicably determine the impact of the omitted disclosure.

Distribution losses

16. The municipality did not disclose the water distribution losses in the financial statements as required by section 125 (2)(d)(i) of the MFMA. The municipality does not have control measures in place to accurately determine the extent of water distribution losses. I was not able to determine the impact on the disclosure of distribution losses, as it was impracticable to do so.

Qualified opinion

17. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ramotshere Moiloa Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA.



Emphasis of matters

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Fruitless and wasteful expenditure

19. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R1 495 314 was incurred in the current year and fruitless and wasteful expenditure from prior years of R3 034 946 had not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

20. As disclosed in note 49 to the financial statements, material electricity losses to the amount of R13 471 728 were incurred.

Additional matters

21. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

22. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

23. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

25. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Key performance area: Basic service delivery on pages [XX] to [XX]

26. I evaluated the usefulness of the reported performance information to determine whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).



27. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the selected key performance area are as follows:

Key performance area: Basic service delivery

Usefulness of reported performance information

29. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 66% of the reported indicators and 72% of the reported targets were not consistent with those in the approved integrated development plan. None of the material changes made to the indicators and targets in the annual performance report were approved by following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council.
30. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 38% of indicators were not verifiable.
31. A total of 21% of indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five year integrated development and service delivery and budget implementation plan as required by the FMPPI.

Reliability of reported performance information

32. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information.

Additional matters

33. I draw attention to the following matters:

Achievement of planned targets

34. Refer to the annual performance report on pages [XX] to [XX] and [XX] to [XX] for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected key performance area reported in paragraphs 28 to 30 of this report.

Unaudited supplementary information

35. The supplementary information set out on pages [XX] to [XX] does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

36. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general



notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

- 37. Revisions to the service delivery and budget implementation plan were not approved by the council as required by section 54(1)(c) of the MFMA.
- 38. The performance of the municipality were not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
- 39. The amendments to the integrated development plan was not adopted by the council only after consultation with the district and taking into account all comments received as required by regulation 3(6) of the Municipal planning and performance management regulations.
- 40. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring and review and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

Annual financial statements, performance and annual reports

- 41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
- 42. The annual performance report for the year under review did not include a comparison with the previous financial year as required by section 46(1)(b) of the MSA.
- 43. The 2014-15 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
- 44. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Revenue management

- 45. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Expenditure management

- 46. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 47. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

- 48. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulations 17(a) and (c).
- 49. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).



50. Bid adjudication committees were not always composed in accordance with SCM regulation 29(2).
51. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
52. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
53. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
54. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Consequence management

55. Unauthorised, irregular and fruitless and wasteful expenditure, incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of sections 32(2)(a) and (b) of the MFMA.

Environmental management

56. The municipality did not exercise its legislative and executive authority of managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment as required by section 11(3)(l) and (m) of the MSA.
57. The municipality's operational activities at its waste disposals sites and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management license or the norms and standards as prescribed by sections 67(1)(f) and (h) of the NEMWA and sections 151(1)(c) and (i) of the NWA.
58. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

Internal control

59. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

60. Action plans did not adequately address prior year audit findings and policies and procedures implemented did not enable and support the understanding and execution of internal control objectives, processes, and responsibilities. The establishment of a culture of honestly, ethical business practices and good governance requires urgent intervention. Leadership failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and the training and development initiatives failed to address the underlying deficiencies that caused matters to be reported on repeatedly.

Financial and performance management



61. The accounting officer did not ensure that adequate monitoring controls were implemented to ensure that reliable financial and performance reports were collated throughout the year as part of his periodic reporting responsibilities. The disinclination to implement preventative internal control measures to address prior year audit findings pertaining to financial and performance reporting and non-compliance with laws and regulation is evident. Management's inability to address repetitive findings relating to supply chain management regulations could be indicative of financial misconduct.

Governance

62. Actions taken by the internal audit and audit committee did not have the desired impact on the implementation of internal controls, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective. This is evidenced by the lack of a properly completed risk assessment process for the financial year and risk mitigating procedures not sufficiently implemented.

Auditor General

Rustenburg

30 November 2016



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